

**The SCHLEGEL MANUFACTURING
COMPANY, Plaintiff-Appellee,**

v.

**USM CORPORATION,
Defendant-Appellant.**

No. 74-2256.

United States Court of Appeals,
Sixth Circuit

Argued April 7, 1975

Decided Sept. 25, 1975

Certiorari Denied April 5, 1976

See 96 S.Ct. 1509

Motion was filed to have defendant adjudged in civil contempt for violating terms of consent decree enjoining defendants from infringing plaintiff's patent relating to pile weatherstripping. The United States District Court for the Southern District of Ohio, Carl A. Weinman, J., 381 F.Supp. 649, adjudged defendant in civil contempt, and defendant appealed. The Court of Appeals held that consent decree, which recited that plaintiff's patent was good and valid and that it was infringed by defendant, was entitled to res judicata effect, that defendant was properly precluded from collaterally attacking consent decree, that infringement provisions of consent decree were not vague and unenforceable, that validity of weatherstripping patent obtained by defendant subsequent to consent decree was at issue in contempt proceeding and that although defendant's patent was invalid on other grounds was not invalid because of misconduct in patent office.

Affirmed and remanded

Harry Phillips, Chief Judge, concurred in part and dissented in part and filed opinion

1. Patents — 327(6)

Consent decree, which provided that plaintiff's patent was good and valid and that it had been infringed by defendant, was res judicata as to issue of patent validity in subsequent proceeding seeking to hold defendant in contempt for

violating injunction entered pursuant to consent decree, by giving res judicata effect to consent decree the court did not close its doors to litigation on issue of patent validity, except as to the parties or their privies, and only after they had the opportunity to litigate the issue fully and, in addition, third parties, were not affected by the consent decree, public interest in purging invalid patent of its status as a government-created monopoly did not preclude giving res judicata effect to the decree

2. Judgment — 634

Res judicata is not a wholly inflexible doctrine; in rare instances public policy may mandate the rejection of the principle

3. Judgment — 651

Although degree of judicial involvement is different between a consent decree and a litigated result, the judicial involvement in the consent decree is not so inconsequential as to justify a different treatment as regards doctrine of res judicata.

4. Patents — 191

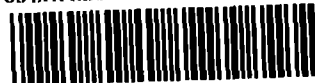
Public interest requires that an invalid patent be stripped of its monopoly status as early as possible

5. Patents — 327(6)

By giving res judicata effect to consent decrees adjudicating validity of a patent a court protects the public interest in stripping an invalid patent of its monopoly status at the earliest possible date since an alleged infringer is thereby deprived of a judicial device which could be used to postpone and delay a final adjudication of validity; if given a second chance to litigate issue of validity alleged infringers might accept a license under a consent decree and forego an attack until favored by a stronger financial position or until threatened by other manufacturers who are not paying royalties.

6. Patents — 326(4)

Adjudicated patent infringer, sought to be held in civil contempt for violating injunction restraining further infringe-



pile fibers are secured to a textile base strip, and an impervious barrier is secured along the center of the pile to the base strip. This barrier is described in claim 1 of the Horton patent as follows:

a barrier strip of impervious, flexible sheet material fixed at one edge to said base strip in said pile gap, to project laterally from and extend longitudinally of said base strip to seal and support said fiber bodies.

The accused device is described in the Johnson patent as a similar type of weatherstrip with an impervious barrier. However, the Johnson barrier is not attached to the base strip. It is attached adhesively to the fibers themselves and the bottom edge of the barrier is spaced a short distance from the base strip.

II Res Judicata

[1-5] In the action for contempt USM sought to introduce evidence which would show that the Horton patent was invalid. The District Court held that the prior consent decree was res judicata of that issue and that the issue was foreclosed in the contempt proceeding. 369 F Supp at 652. On this appeal USM contends that the public policy interests discussed in *Lear, Inc. v. Adkins*, 395 U.S. 653, 89 S.Ct. 1902, 23 L.Ed.2d 610 (1969), renders a finding of invalidity more important than the policies of finality served by the doctrine of res judicata.¹

The present action fits squarely within the rules defining the bounds of res judicata. As stated by the District Court "indeed this is in reality a part of" the first litigation. 369 F Supp at 652. The consent decree represents more than a mere agreement between the parties, or a stipulated dismissal. The District Court received the agreement, signed it and ordered it entered as a final judgment. We, therefore, are not faced with the difficulties in characterizing the decree as a dismissal without prejudice or a

final consent decree, see *Brunswick v. Chrysler Corp.*, 408 F.2d 335 (7th Cir. 1969), and an adjudication of infringement and validity need not be inferred, see *Kraly v. National Distillers & Chem. Corp.*, 502 F.2d 1366 (7th Cir. 1974). This is a consent decree that clearly states that the Horton patent is valid and infringed. See *Warner v. Tennessee Prod. Corp.*, 57 F.2d 642 (6th Cir.), cert. denied, 287 U.S. 632, 53 S.Ct. 83, 77 L.Ed. 548 (1932).

The principal issue then is not whether res judicata applies in the traditional sense, considering the facts of the case and the requirements of that doctrine, but rather whether the entire policy of res judicata is overridden by the public interest in purging an invalid patent of its status as a government-created monopoly. We recognize that res judicata is not a wholly inflexible doctrine, and that in rare instances public policy may mandate the rejection of that principle. 1B J. Moore, *Federal Practice* ¶ 0.405[11] (2d ed. 1974), see *Addressograph-Multigraph Corp. v. Cooper*, 156 F.2d 483, 485 (2d Cir. 1946).

Public policy considerations in patent litigation have long been recognized by the Supreme Court. In *Mercoind Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 670-71, 64 S.Ct. 268, 88 L.Ed. 376 (1944), the Court considered the question of res judicata with respect to certain defenses that might have been, but were not, advanced by parties privy to a first suit. In the earlier suit the patent was held to be valid. The Court determined that this finding was not res judicata of a patent misuse counterclaim for damages that could have been, but was not, litigated in the first action. The Court stated:

"Courts of equity may, and frequently do, go much farther both to give and withhold relief in furtherance of the public interest than they are accustomed to go when only private

1. See generally, Note, "To bind or not to bind", Bar and Merger Treatment of Consent

Decrees in Patent Infringement Litigation," 74 Colum. L. Rev. 1322 (1974).

interests are involved." *Virginian Ry. Co. v. System Federation No. 40*, 300 U.S. 515, 552, [57 S.Ct. 592, 81 L.Ed. 789] "Where an important public interest would be prejudiced," the reasons for denying injunctive relief "may be compelling." *Harrisonville v. W. S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 338 [53 S.Ct. 602, 77 L.Ed. 1208] 320 U.S. at 670, 64 S.Ct. at 273.

It was concluded that

The case is then governed by the principle that where the second cause of action between the parties is upon a different claim the prior judgment is *res judicata* not as to issues which might have been tendered but "only as to those matters in issue or points controverted, upon the determination of which the finding or verdict was rendered." *Cromwell v. County of Sac*, 94 U.S. 351, 353 [24 L.Ed. 195] And see *Russell v. Place*, 94 U.S. 606 [24 L.Ed. 214] 320 U.S. at 671, 64 S.Ct. at 271.

The public interest in patents was also involved in *Smelan & Carroll Co. v. Interchemical Corp.*, 325 U.S. 327, 330, 65 S.Ct. 1143, 89 L.Ed. 1644 (1945), where the Court encouraged a full inquiry into patent validity, admonishing that

There has been a tendency among the lower federal courts in infringement suits to dispose of them where possible on the ground of non-infringement without going into the question of validity of the patent. *Irvin v. Buick Motor Co.*, 8 Cir., 88 F.2d 947, 951, *Aero Spark Plug Co. v. B. G. Corp.*, 2 Cir., 130 F.2d 290, *Franklin v. Masonite Corp.*, 2 Cir., 132 F.2d 800. It has come to be recognized, however, that of the two questions, validity has the greater public importance, *Cover v. Schwartz*, 2 Cir., 133 F.2d 541, and the District Court in this case followed

what will usually be the better practice by inquiring fully into the validity of this patent. 325 U.S. at 330, 65 S.Ct. at 1145.

See *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229 31, 84 S.Ct. 784, 11 L.Ed.2d 661 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 84 S.Ct. 779, 11 L.Ed.2d 669 (1964).

These policies were applied further in *Lear, Inc. v. Adkins*, *supra*, where the Court abrogated the doctrine of licensee estoppel. The "federal policies" of *Lear* have been considered by this court with respect to royalties, see *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 489 F.2d 968 (6th Cir. 1973), *cert. denied*, 416 U.S. 939, 94 S.Ct. 1942, 10 L.Ed.2d 290 (1974), *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253 (6th Cir. 1972), *Atlas Chemical Indus., Inc. v. Moraine Products*, 509 F.2d 1 (6th Cir. 1974). We have noted that "One of the primary goals in *Lear* was to 'unmuzzle' licensees so that an early adjudication of invalidity could inure to the public interest." *Atlas Chemical Indus., Inc. v. Moraine Products*, *supra*, 509 F.2d at 6. See *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 91 S.Ct. 1434, 28 L.Ed.2d 788 (1971).²

In the present case we are asked to extend *Lear* further and to follow the Seventh Circuit's decision in *Kraly v. National Distillers and Chemical Corp.*, 502 F.2d 1366 (7th Cir. 1974). In *Kraly*, 502 F.2d at 1369, the court applied the policies of *Lear* to consent decree adjudications of validity, concluding that:

National Distillers, the licensee, is not estopped from challenging the validity of the patent, even though a prior consent decree incorporated an understanding not to challenge the validity of the patent. As Judge Stevens points out in *Business Forms*, [*Busi-*

² In other circuits the *Lear* public policy considerations have found a wide range of application to traditional concepts of patent law. See, e.g., *Coastal Dynamics Corp. v. Symbolic Displays, Inc.*, 469 F.2d 79 (9th Cir. 1972) (assignor estoppel doctrine); *Missillon-Cleve-*

land Akron Sign Co. v. Golden State Advertising Co., 444 F.2d 425, 427 (9th Cir.), *cert. denied*, 404 U.S. 873, 92 S.Ct. 100, 30 L.Ed.2d 117 (1971) (no-contest clauses in settlement agreements invalidated).

ness Forms Finishing Service, Inc. v. Carson, 7 Cir., 452 F.2d 70], "A contrary result could not be reconciled with 'the public interest in a judicial determination of the invalidity of a worthless patent.'" 452 F.2d at 75.

The Seventh Circuit explicitly rejected the holding of the District Court in the present case, stating as follows:

We cannot agree with the *Schlegel* court that [*Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc.*, 489 F.2d 974 (7th Cir. 1973)] supports the proposition that "once a party enters a consent decree accepting the validity of a particular patent, that party is estopped from raising the validity issue in subsequent litigation regarding the same parties and the same patent." *Id.* at 653. While it is true that in *Ransburg* this court reasoned that "the *Lear* case did not signify that something called 'federal public policy on patents' could be used to undo the effects of a valid lawsuit settlement contract," *id.*, that reasoning was applied only to that portion of the settlement involving past infringement. 502 F.2d at 1369.

The Seventh Circuit has subsequently reaffirmed this holding in *Crane Co. v. Aeroquip Corp.*, 504 F.2d 1086, 1092 (7th Cir. 1974), stating that the "Defendant was within its rights to test validity after entering into the consent judgment of validity."

We respectfully disagree with the Seventh Circuit's interpretation of *Lear*. In so holding we are in agreement with the Second Circuit, see *Broadview Chemical Corp. v. Loctite Corp.*, 474 F.2d 1391, 1395 (2d Cir. 1973), and the Eighth Circuit, see *United States ex rel. Shell Oil Co. v. Barco Corp.*, 430 F.2d 998, 1001 (8th Cir. 1970). See also *Schnitger v. Canoga Electronics Corp.*, 462 F.2d 628 (9th Cir. 1972); but see *Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738, 739-40 (9th Cir. 1971).

In *Hirs v. Detroit Filter Corp.*, 421 F.2d 1040, 1041 (6th Cir. 1970), this court stated that a contempt proceeding fol-

lowing a fully litigated issue of infringement is not a "de novo inquiry as to infringement, since the earlier determination of the validity of the patent and all the defenses to a charge of infringement which are related thereto are res judicata."

"We are aware of no court which has entertained the suggestion that *Lear* abrogates the doctrine of res judicata after a fully litigated result. This would seem to be the logical extension of denying res judicata effect to a consent decree. This court has not recognized such a difference previously, see *Warner v. Tennessee Products Corp.*, *supra*, 57 F.2d 642 (6th Cir.), cert. denied, 287 U.S. 632, 53 S.Ct. 83, 77 L.Ed. 548 (1932). Even though the degree of judicial involvement is different between a consent decree and a litigated result, we are not prepared to find that judicial involvement in a consent decree is so inconsequential as to justify different treatment. We stated in *Wadsworth Electric Mfg. Co. v. Westinghouse Electric & Mfg. Co.*, 71 F.2d 850, 851-52 (6th Cir. 1934), as follows:

Were it permissible upon every proceeding in contempt to again challenge the validity of the claims, and to reopen issues already decided, such practice would be subversive, if not indeed wholly destructive, of the plenary power of the court to enforce its decrees, and to reopen questions of validity upon an appeal from a contempt order would be to invite all defeated litigants in patent infringement suits to defy injunctive orders, and by such defiance to seek review of adjudicated issues not otherwise open to them.

In *United States v. Swift & Co.*, 286 U.S. 106, 115, 52 S.Ct. 460, 462, 76 L.Ed. 999 (1932), Mr. Justice Cardozo said: "We reject the argument that a decree entered upon consent is to be treated as a contract and not as a judicial act."

Looking to the rationale of *Lear*, we note that there is a significant difference between the effect of a consent decree and the doctrine of licensee estoppel

The parties to the patent suit are entitled to a full and fair hearing on the merits of the case up until the time a consent decree is entered. The doctrine of licensee estoppel closed the doors of the courts to a large group of parties who had sufficient interest in the patent to challenge its validity. By giving res judicata effect to consent decrees, we do not close the doors of the courts to litigation on the issue of patent validity, except as to parties or their privies, and only after they have had the opportunity to litigate the issue fully. Third parties are not affected by the consent decree. See, e.g., Annot., 4 A.L.R.Fed. 214, 217 (1970). *Boutell v. Volk*, 449 F.2d 673, 675 (10th Cir. 1971).

The public interest requires that an invalid patent be stripped of its monopoly, and at as early a date as possible. When a consent decree is to be given res judicata effect, litigants are encouraged to litigate the issue of validity rather than foreclosing themselves by a consent decree. If they were given a second chance to litigate the issue of validity, alleged infringers might well accept a license under a consent decree and forego an attack on validity until favored by a stronger financial position, or until threatened by other manufacturers who were not paying royalties. By giving res judicata effect to consent decrees this court protects the public interest in that an alleged infringer is deprived of a judicial device which could be used to postpone and delay a final adjudication of validity. See *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, supra, 402 U.S. at 334-48, 91 S.Ct. 1434; *Lear, Inc. v. Adkins* supra, 395 U.S. at 683, 89 S.Ct. 1902; *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, supra, 465 F.2d at 1257; see also *Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc.*, 489 F.2d 974, 978 (7th Cir. 1973).

We, therefore, hold that the District Court was correct in ruling that the doctrine of res judicata barred USM from reviving and relitigating the issue of the validity of the Horton patent.

III Contempt

The District Court held that USM has violated the permanent injunction issued by that court on February 22, 1972, and is in contempt. The permanent injunction was reaffirmed and ordered to be continued. USM was ordered to account for all profits derived from its sales of the contemptuous construction.

We conclude that the findings of infringement are not clearly erroneous and that these findings require affirmance of the decision on the issue of contempt.

This Court in a number of decisions has established clearly the applicable rule in proceedings for contempt for violation of an injunction against infringement of a patent.

In *Field Body Corp. v. Highland Body Mfg. Co.*, 13 F.2d 626, 627 (6th Cir. 1926), we held

The relation of the Morrison patent to other structures and the validity of certain of its claims are argued by counsel for appellant as though the adjudication of validity and infringement were under review. We are not concerned with the prior art, nor with an original interpretation of the claims of the patent. It suffices here that in an action between the parties the patent was held infringed by appellant's original structure. The question, then, is whether the modified structure is the equivalent of the original in its relation to the patent in suit.

The Court further held

The question is one of fact. (Id. at 627)

In *Wadsworth Elec. Mfg. Co. v. Westinghouse Elec. & Mfg. Co.*, 71 F.2d 850 (6th Cir. 1934), Judge Simons, who wrote the opinion for the Court, followed *Field Body* and stated

The question in proceedings for contempt for violation of an injunction against infringement is not one which relates to or involves the original interpretation of the claims of the patent. *Field Body Corporation v. Highland Body Mfg. Co.*, 13 F.2d 626 (C.C.A.6). It suffices that in an action be-

tween the parties the patent was held valid and infringed, and the question is only whether the modified structure is equivalent to the original in relation to the patent in suit. "The proceeding for its punishment (for contempt) is a new and distinct proceeding, and is quite independent of the equities of the case on which the decree is founded." *Bullock Electric & Mfg Co v Westinghouse Electric & Mfg Co*, 129 F 105, 106 (C C A 6). Were the rule otherwise, and were it permissible upon every proceeding in contempt to again challenge the validity of the claims, and to reopen issues already decided, such practice would be subversive, if not indeed wholly destructive, of the plenary power of the court to enforce its decrees, and to reopen questions of validity upon an appeal from a contempt order would be to invite all defeated litigants in patent infringement suits to defy injunctive orders, and by such defiance to seek review of adjudicated issues not otherwise open to them. We think it clear that the only issue presented by this appeal is whether the defendant's modified structures infringe the patent claims, and whether their manufacture violates the writ of injunction, and upon that issue neither the court below nor this court need consider the prior art. *Field Body Corporation v. Highland Body Manufacturing Company*, supra (851 852).

In *Panduit Corp. v. Stahl Bros Fibre Works, Inc.*, 338 F Supp 1240 (W.D Mich 1972), *aff'd*, 476 F.2d 1286 (6th Cir 1973), the Court held:

The standard applied in contempt proceedings following an adjudication of patent validity and infringement is abundantly clear. In such proceedings the question is whether the accused structure is equivalent to the original in relation to the patent in suit. *Field Body Corporation v. Highland Body Mfg. Co*, 13 F.2d 626 (6th Cir 1926). *Wadsworth Electric Mfg Co. v. Westinghouse Electric & Mfg Co*, 71 F.2d 850 (6th Cir. 1934), certiorari denied

Wadsworth Electric Mfg Co v Sachs, 294 U S 724, 55 S Ct 552, 79 L Ed 1255. Thus, there are two focal points to the issue presently before the court: (1) the equivalency of the modified structures to the structures previously held infringing, and (2) the relationship of the new devices to the valid patent claim. *Hirs v Detroit Filter Corp*, 424 F.2d 1040, 1041 (6th Cir 1960) (1241-1242).

[6] In our opinion the District Court did not err in excluding evidence offered by USM which was designed as a collateral attack on the consent decree.

Reference is made to the District Court's findings of fact Nos 22 through 38, reported at 381 F.Supp at 652-53.

[7] We have held consistently that the issue of infringement is factual and the findings of fact of the trier of the facts are governed by Rule 52(a), Fed R Civ P. See, e.g., *Olympic Fastening Systems, Inc. v. Textron, Inc.*, 504 F.2d 609, 619 (6th Cir. 1974), *Schnadig Corp v. Gaines Mfg Co.*, 494 F.2d 383, 389 (6th Cir. 1974), *Tappan Co. v. General Motors Corp.*, 380 F.2d 888, 891 (6th Cir 1967), *United States Plywood Corp. v. General Plywood Co.*, 370 F.2d 500, 507 (6th Cir. 1966).

These authorities compel the sustaining of the factual findings of Judge Weinman, as they are supported by the overwhelming evidence in this case.

[8] We reject the contention that the infringement provisions of the consent decree were vague. Paragraph 4 of the decree found infringement "by making and/or selling pile weatherstripping having a flexible, impervious barrier in the pile as represented by USM's Series 892 and 893 and embodying the inventions disclosed and claimed therein" (Emphasis added).

The patent specifications describe the Horton weatherstrip as having a flexible, impervious barrier. It is also described in USM's Series 892 and 893.

The description of the barrier strip as shown in USM's Series 892 and 893 cer-